



Purchasing Division Audit Report

Issued by the
Internal Audit Office
December 19, 2006

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Purchasing Division. Based on the results of the audit, eight findings were identified to indicate internal control weaknesses within the Purchasing Division. Four of these findings are considered significant in nature, while four findings are less significant.

The Purchasing Division has gone through several reorganizations in the past couple of years. The reorganizations and movement of personnel has created inconsistencies in the interpretation of procedures and has created internal control weaknesses. Listed below is a summary of the four (4) significant findings identified in this report.

1. There is a lack of consistency in the documentation maintained in formal and informal bid files.
 - A review of ten formal bid files of \$25,000.00 and above was performed. The files contained the following inconsistencies: 20% of the files were not accurately completed, 60% of the Best-value bid files did not document the best-value team members, 40% did not contain a certificate of non-collusion, 70% did not contain purchase orders, and 10% had a turn around time that was not within the required 60 day turn around timeframe for Construction Bids.
 - A review of six informal bid files ranging from \$5,000.00 through \$24,999.99 was also performed. 66.6% of the files were not accurately completed, 100% of the files did not contain a certificate of non-collusion and did not have proper management review.
2. The Purchasing Division has not established best-value team procedures in regards to the minimum number of team members required to reach an objective consensus, procedures for supporting low and high ratings, and procedures requiring the listing of best-value team members informal bid or contract files.
3. The Buyers in the Purchasing Division do not have proper segregation of duties between the functions of entering a requisition and approving a purchase order.
4. The Purchasing Division does not have a mechanism in place for centrally monitoring vendor performance to include vendor protests.

Listed below are the four findings listed as “Other Findings.”

5. The Purchasing Division lacks a formal training program for its personnel.
6. The Purchasing Division does not have a rotation policy in place for personnel.
7. The Purchasing Policies and Procedures Manual does not:
 - State that personnel cannot disclose information to vendors during the bidding process,
 - Set a limit of the number of purchase order (PO) changes to include price increases and decreases a department can use for each PO,
 - Contain procedures to follow for purchases under \$25,000.00.
8. One of the Purchasing Division’s Procurement Card (P-Card) users was issued a P-Card without proper authorization and without established spending limitations established on the “P-Card Maintenance Form, PCM-1.” In addition the P-Card purchases within the Purchasing Division are being approved by personnel without budget expenditure authority.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

BACKGROUND

The Purchasing Division coordinates the purchasing of supplies, materials, equipment, construction and services for all City departments in accordance with State Statutes, City Ordinances and proper purchasing procedures. The Purchasing Division processes and reviews all construction contracts and coordinates all the bid processing, contract renewals and bid documentation between users, departments, suppliers and potential bidders. The Purchasing Division:

- Coordinates contracts for the purchase of all supplies, materials, and services in annual amounts exceeding \$25,000.00 for all City departments, and administers all formal contracts and acts as the City's liaison with vendors.
- Provides oversight and assurance that all public projects are bid, awarded and completed with the application of the best contract methods and procedures while adhering to all applicable Federal, State, and City Regulations. In 2005 the Purchasing Division implemented a BidsONLINE website that provides detailed information about current bidding and contract opportunities.

The Purchasing Division has gone through several reorganizations in the past few years. The Purchasing Division used to be a stand alone department with its own Director of Purchasing. Approximately two years ago, Purchasing was moved under the functional area of Financial Services and the job title of the Director of Purchasing was changed to Deputy Director of Financial Services. During 1999 "Contract Compliance," now referred to as "Construction Bidding," was moved from Engineering to Purchasing and on March 27, 2006 was moved back to Engineering along with some of the Purchasing Division's staff. All construction bids, both formal and informal, are sent to Engineering. Engineering previously placed their own bid agenda items for city council meetings. As of September 1, 2006 the role of placing agenda items for Engineering was switched back to the Purchasing Division. The packets are still prepared in Engineering, and are submitted to the Administrative Analyst overseeing construction bids in the Purchasing Division in order to prepare the bid proposal. These are then sent back to Engineering for bid recommendations, and forwarded back to Purchasing to approve. They are then given to the Purchasing Manager (in February 2006, the position was reclassified as Manager of the Purchasing Division) to place as an agenda item for city council. The Purchasing Manager is the contact for all agenda items. This position was vacant from February 2006 to May 2006. The City hired a Purchasing Manager on May 5, 2006.

SCOPE

The audit objectives of this audit were to determine if the Purchasing Division has adequate Internal Controls in place to ensure the bidding process is functioning as intended and to determine if there are appropriate mechanisms in place to allow management proper oversight over high-risk areas. In order to accomplish this, our audit addressed the following issues:

- Obtained an understanding of the City of El Paso's Purchasing function.
- Determined if the bidding process has appropriate segregation of duties so the Analyst does not write the bid, process the paperwork, and award the bid.
- Ascertained if the Analyst in the bidding process uses "Evaluation Forms" to objectively review all bids.
- Addressed specific concerns over bids which included printing services bids, materials bids (extension and totals), Requests for Council Actions (RCA) forms completed by departments, and the process for scoring the best value bids.
- Determined if the Purchasing Manager was involved in the review of the bid process.
- Ascertained if the methods for purchases were functioning as intended. Currently there are five types of purchase orders
 - .01 to \$499.99 – Petty Cash or Procurement card purchase
 - \$500.00 - \$2,499.99 – May be single sourced or bids taken by individual departments using purchase orders or procurement cards
 - \$2,500.00 to \$4,999.99 – Minimum of three quotes required
 - \$5,000.00 to \$24,999.99 – Informal bids
 - \$25,000.00 & above – Formal bids (need City Council approval)
- Reviewed selected inter-local purchasing agreements (State & County) to determine how these were used.
- Conducted Analytical Review Procedures to measure the timeline from purchase order (bid) to delivery. Determined that procedures were in line with best practices.
- Determined if the use of sole sources was consistent with the need to use sole source vendors or whether it was a convenient method of doing business by bypassing established procurements guidelines.
- Conducted customer satisfaction surveys in order to determine if the Purchasing Division was meeting customer needs.
- Obtained an understanding of the Protest Procedures available to bidders and vendors.

The audit period covered the operations of the Purchasing Division Fiscal Year 2005 – 2006.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

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***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso's financial statements, identifies an internal control breakdown, a violation of a City procedure, law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an "Other Finding".

Finding 1

Bid Files

A review of ten formal bid files of \$25,000.00 and above awarded between the periods of 9/1/2005 through 6/30/2006 was conducted. The following are the results of our review:

Solicitation #	Accurately completed	Best-value team members documented **	Contained Certificate of non-collusion ***	Evidence of Purchasing Manager Review	Purchase orders in file	Turn around time within required time frames	Comments
2005-281	No	N/A	Yes	Yes	No	Yes	7 discrepancies in dollar amounts between tabulation sheet & vendor's bid.
2005-256 *	Yes	Yes	Yes	Yes	No	Yes	
2005-278 *	Yes	No	No	Yes	Yes	Yes	
2005-262 *	Yes	No	Yes	Yes	Yes	Yes	
2006-086	Yes	N/A	Yes	Yes	No	Yes	
2006-076 *	Yes	Yes	Yes	Yes	No	Yes	
2006-061 *	Yes	No	No	Yes	Yes	Yes	
2005-258	Yes	N/A	No	Yes	No	Yes	
2006-126	No	N/A	No	Yes	No	Yes	Item Group III on bid award was posted incorrectly on 7/5/06 Council meeting; Jobe was still awarded all items on 7/18/06; 8/1/06 Council approves item III.
2006-002	Yes	N/A	Yes	Yes	No	No	125 days from bid opening to council approval.
% of "No"	20%	60%	40%	0%	70%	10%	

Legend:

* Best value bid; ** Best value team members currently only being documented for construction bids.

*** Certificate of Non-Collusion currently only being required for Federally funded bids and Construction bids.

N/A- not applicable

A review of six informal bid files ranging from \$5,000.00 through \$24,999.99 awarded between the periods of 10/6/2005 through 6/30/2006 was conducted. The following are the results of our review:

Informal bid #	Accurately completed	Contained a certificate of non-collusion *	Proper management review **	Comments
2006105	Yes	No	No	
2006103	Yes	No	No	
2006084	No	No	No	Bid Tabulation sheet not signed off by buyer.
2006075	No	No	No	Bid Tabulation sheet not signed off by buyer.
2006053	No	No	No	Bid Tabulation sheet not signed off by buyer.
2006001	No	No	No	Bid Tabulation sheet not signed off by buyer; completed best-value bid tabulation was not included in file.
% of "No"	66.6%	100%	100%	

Legend:

* Certificate of non-collusion currently not required for informal bids;

** Currently the Buyer is last line of review for Informal bids.

The following are additional bid file observations:

- There is no checklist used to track what should be in the bid files both formal and informal.
- Buyers are automatically routed subsequent POs from Procurement Analysts' contracts instead of the analyst who worked the contract.

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Recommendation

Checklists and standard forms should be established to help identify what documentation should be contained in each file and a management review process should be implemented to help identify any inconsistencies between the files.

Management's Response

A checklist and/or forms will be developed to identify what documents will be contained in each bid file and a management review process will be implemented to ensure the files are consistently maintained.

Responsible Party

Terry Freiburg

Implementation Date

May 1, 2007

Finding 2

Best-Value Evaluations

The Purchasing Division has not established best-value team procedures in regards to the minimum number of team members required to reach an objective consensus, procedures for supporting low and high ratings, and procedures requiring the listing of best-value team members in formal bid or contract files.

Recommendation

The Purchasing Division should review and update best-value team procedures and processes in regards to the minimum number of team members, procedures for supporting low and high ratings, and the listing of members in formal bid or contract files.

Management's Response

Best Value procedures and processes will be updated to include a minimum number of committee members, a procedure for supporting low and high ratings, and a listing of members within each bid file.

Responsible Party

Terry Freiburg

Implementation Date

May 1, 2007

Finding 3

Internal Controls- Segregation of Duties

The Purchasing Division Buyers have the capability of entering requisitions, budget checking, modifying, and approving in PeopleSoft. Buyers can modify all of the information in a purchase order (PO) after it has been approved except for the vendor number and the purchase order number.

Recommendation

Proper internal controls should be implemented in the Procurement Division. Internal controls related to segregation of duties needs to be established between the functions of entering a requisition and approving a purchase order (PO).

Management's Response

The requisition entry capability allows staff to budget check and modify requisitions but does not allow approval of the requisition within PeopleSoft. Requisition approval can only be done by the Budget authority assigned to that account. However, buyers can turn an "approved requisition" into a purchase order, which is different then approving a requisition. Purchasing is currently requesting the IT Department to create a "role" that will only allow buyers to budget check and modify requisition and not "create a requisition." This would satisfy the segregation of duties designation enumerated above.

Responsible Party

Terry Freiburg

Implementation Date

April 1, 2007

Finding 4

Vendor Procedures

Vendor performance, which includes vendor protests, is not monitored centrally by the Purchasing Division. Currently individual user departments monitor vendor's performance and the information is not relayed to the Purchasing Division, and in turn to other department's that may contract the same vendor.

Recommendation

The Purchasing Division should implement a mechanism that will enable them to centrally monitor vendor performance to include vendor protests.

Management's Response

Currently, Purchasing administers bid contracts and, when necessary, contacts vendors when a noncompliance issue is identified. This information and vendor protests are made part of individual bid files. In response to this finding, Purchasing will create a centrally maintained database that will include Purchasing's information and also allow input from departments for use by departments when evaluating bid or contracting with vendors.

Responsible Party

Terry Freiburg

Implementation Date

June 1, 2007

***OTHER FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

Finding 5

Training

The Purchasing Division lacks a formal training program for educating and training its personnel.

Recommendation

The Purchasing Division needs to implement a formal training program for educating and training purchasing personnel, for example management should encourage staff to pursue the Certified Purchasing Manager (C.P.M.) professional designation, so they can stay up to date with new laws and regulations.

Management's Response

Currently, all buyers and procurement analysts are members of the National Institute of Governmental Purchasers (NIGP) and are provided monthly meetings, professional development and on-line purchasing courses that are part of their membership. Also, depending on the level of expertise, personnel are already encouraged to pursue a CPM certification. In addition, there are various procurement workshops, conferences, forums and trade shows that are made available to procurement personnel throughout the year. In response to this recommendation, Purchasing will create a budget for educating and training personnel that will include the above activities and designate a minimum number training hours required each year that coincides with their level of expertise.

Responsible Party

Terry Freiburg

Implementation Date

June 1, 2007

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Finding 6

Rotation Policy

The Purchasing Division does not have a rotation policy in place for procurement personnel (Administrative Analyst, Procurement Analyst, and Buyers).

Recommendation

The Purchasing Division should implement a rotation policy for procurement personnel in order to establish a strong Internal Control environment.

Management's Response

A Rotation policy has many pros and cons associated with it. Some of the reasons that have been mentioned to justify this action are that purchasing personnel will become too familiar with a department's personnel or particular vendors associated with certain bids, etc. On the other hand, Personnel are either assigned specific departments and/or certain types of bids (i.e. proposals versus bids) to ensure good customer service; develop an area of expertise, and/or both. In many instances, bids span multiple years and personnel assigned to those bids are familiar with the contract, its terms, and user department's needs, etc. Given the volume of work and shortage of staff, it would be difficult and time consuming to take over unfamiliar multiple contracts and not experience delays in meeting departmental needs and/or ensuring good customer service. As a result, a modified version of this policy would be beneficial and will be developed to be used as circumstances dictate.

Responsible Party

Terry Freiburg

Implementation Date

June 1, 2007

Chief Internal Auditor's Response

The Purchasing Division is assuming additional risk by not implementing a rotation policy. Implementing a regular rotation policy would reduce the risks stated in Management's Response.

Finding 7

Purchasing Division Policies and Procedures Manual

The Purchasing Policies and Procedures handbook does not:

- Prohibit ordering department personnel or Purchasing personnel from discussing the award recommendation with any party, including the potential contractor, except other City employees involved in the project, until after the actual award recommendation has been placed on the published City Council Agenda,
- Set a limit on the number of Purchase Order (PO) changes to include price increases and decreases a department can use for each PO,
- Contain procedures to follow for purchases under \$25,000.00, to include voucher purchases.

Recommendation

The Purchasing Policies and Procedures handbook should be updated to specifically:

- Prohibit ordering department personnel or Purchasing personnel from discussing the award recommendation with any party, including the potential contractor, except other City employees involved in the project, until after the actual award recommendation has been placed on the published City Council Agenda,
- Set a limit on the number of PO changes to include price increases and decreases a department can use for each PO,
- Establish procedures for purchases under \$25,000.00, to include voucher purchases

Management's Response

The Purchasing Manual will be updated to 1) prohibit ordering department personnel and Purchasing personnel from discussing bid and award information with anyone except other City employees involved in the project, 2) set a limit on the number of PO changes to include price increases and decreases. Procedures for purchases under \$25,000 have already been instituted.

Responsible Party

Terry Freiburg

Implementation Date

May 1, 2007

Finding 8

Procurement Card (P-Card)

The following deficiencies were identified with the procurement card program within the Purchasing Division:

- One out of the three (33.33%) Purchasing Division P-Card users was issued a P-Card without proper authorization and without established spending limitations established on the “P-Card Maintenance Form, PCM-1,”
- For the month of June 2006 there were a total of eleven P-Card purchases made by the Purchasing Division.
 - Eleven out of eleven (100.00%) of the purchases were approved by a person without budget expenditure authority.

Recommendation

The Purchasing Division should:

- Ensure that all the department Procurement card users have a properly authorized “P-Card Account Maintenance Form, PCM-1,”
- Require that P- Card purchases be approved by a person with budget expenditure authority.

Management’s Response

Purchasing P – Card users have obtained an authorized Account Maintenance Form, PCM-1 and P – Card purchases are being approved by the budget expenditure authority.

Responsible Party

Terry Freiburg

Implementation Date

March 1, 2007

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this internal audit,

- The Purchasing Division needs to improve its oversight over informal bids of \$24,999.99 and below and best-value evaluation bids by implementing a quality control process.
- The use of checklists and standard forms needs to be established for both formal and informal bid files in order to aid in the quality control review.
- Policies and Procedures should be updated and communicated to both Purchasing personnel and user City departments.
- Vendor performance should be centralized within the Purchasing Division so that informed decisions can be made by user departments as they evaluate a vendor's past performance.
- The Purchasing Division should enhance its internal controls in regards to access to PeopleSoft, department Procurement-Card approvals, and the periodic rotation of procurement staff.
- The Purchasing Division should ensure that all department personnel are adequately trained in the department's Policies and Procedures and any pertinent procurement laws, regulations, and requirements.

The Purchasing Division is under new management. The new management has been very cooperative and receptive to this audit. By taking the findings and recommendations contained in this report, should allow the Purchasing Manager the opportunity to make positive changes. We would like to thank the Purchasing Manager and staff for his cooperation and honesty in the completion of this audit.

Signature on File

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